

KEPPEL OPP'N EXH. 65

MEMORANDUM

To: K. Talbot; B. Thomas
From: K. Corrigan, C. Taylor, K. Lowder
Subject: Sete Brazil
Date: April 4, 2011



The attached analyses cover the perceived risks of a potential investment in Sete Brazil and highlight the cash flows from both a single asset (one of seven drillships) and a full project development.

Based on the preliminary work completed to date, it is the investment team's view that the opportunity warrants more thorough due diligence and the indicated returns, risks and structure fit the criteria for Funds XIV and/or XV investment consideration.

Exhibit
DEF 0037
Lowder

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EXHIBIT
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Sources & Uses: Single Asset SPE		Year	1	2	3	4
Uses	Total					
EPC	\$ 662,429		137,595	268,842	210,652	45,339
Equipamentos Startup	15,000		-	-	-	15,000
Cota FGCN	3,781		-	-	-	3,781
CMA	8,350		1,734	3,389	2,655	572
Insurance	10,746		10,746	-	-	-
USD inflation adj.	13,366		997	4,079	6,140	2,150
BRL inflation adj.	25,617		5,261	10,169	8,364	1,824
Total Construction	739,289		156,333	286,479	227,812	68,666
Bridge Loan Principal Repayment	156,077		-	156,077	-	-
Bridge Loan Interest	6,216		-	6,216	-	-
Other Financial Costs	2,069		-	2,069	-	-
Total Financial Costs During Construct	164,362		-	164,362	-	-
Total Uses	903,651		156,333	450,840	227,812	68,666
Sources	Total	Pricing				
Bridge Loan	\$ 156,077	L+ 300	117,250	38,827	-	-
BNDES USD	336,408	L+ 275	-	202,993	102,515	30,900
ECAs	149,515	L+ 300	-	90,219	45,562	13,733
Commercial Banks	112,136	L+ 300	-	67,664	34,172	10,300
Total Senior Debt	754,136		117,250	399,705	182,249	54,933
Subdebt: A Class	42,612	IPCA+ 650	-	25,713	12,985	3,914
Total Debt	796,748		117,250	425,417	195,234	58,846
Equity A Class	118,135	equity	35,730	41,368	27,690	8,346
Equity B Class	16,035	equity & cost+ svc.	3,353	6,323	4,887	1,473
Bridge Loan Refi Excess Proceeds	(22,267)	-	-	(22,267)	-	-
Total Equity	106,903		39,083	25,423	32,577	9,819
Total Sources	903,651		156,333	450,840	227,812	68,666

Construction Risk – EIG originally identified cost overruns and delivery delays as a primary risk due to local content mandates to employ Brazilian shipyards. The structure of the transaction mitigates the identified risk as follows: (i) only 42% of the EPC is dedicated to Brazilian yards which is primarily dedicated to the lower spec portions of each drillship while the remaining 58% is earmarked for construction of higher spec components at proved, world class yards in southeast asia, (ii) the contracts are turnkey therefore evaluation of the cost-risk becomes a credit exercise, (iii) standard construction time for comparable vessels is approximately 2.5 years, budgeted time for the Sete vessels is 4.0 - 4.5 years, an outside date for contract termination allows for up to 6 years and all penalties issued by Petrobras to Sete are pass-thru to the EPC contractor prior to the outside date.

Debt Pricing and Refinancing – the timing of the debt pricing relative to equity commitments is TBD. The bridge loan creates near term refinancing risk while the project naturally incurs longer-term refinancing risk.

Operating Cash Flow Buildup: Single Asset SPE			Year	1	2	3	4	5	6	7	8	9	10	11	12
Dayrate Summary	Base Rate USD	Description													
Charter Contract Dayrate	\$ 296.0	Base revenue source													
Service Contract Dayrate	\$ 162.0	Opx pass thru to Class B													
Total Nameplate Dayrate	\$ 458.0														
	Base Rate USD	Currency Election													
Charter Dayrate USD	\$ 236.8	80% paid in USD	\$	-	\$	-	\$	-	\$	250.7	\$ 251.7	\$ 253.0	\$ 254.3	\$ 255.7	\$ 257.0
Charter Dayrate BRL	\$ 59.2	20% paid in BRL	R\$	-	R\$	-	R\$	-	R\$	130.8	R\$ 134.8	R\$ 140.2	R\$ 145.8	R\$ 151.6	R\$ 157.7
Total USD Equivalent Charter Dayrate	\$ 296.0	(Select up to 30%)	\$	-	\$	-	\$	-	\$	313.1	\$ 314.7	\$ 317.0	\$ 319.4	\$ 321.8	\$ 324.2
Assumed Operating Uptime				0%	0%	0%	0%	71%	96%	96%	96%	96%	96%	96%	96%
Charter Revenues (USD Equivant)		(dayrate) x (uptime) + (bonu	\$	-	\$	-	\$	-	\$	83,938	\$ 115,008	\$ 116,875	\$ 117,752	\$ 118,965	\$ 119,513
Plus: Mobilization Rate		mobe cost offset		-	-	-	-	-	-	30,000	-	-	-	-	-
Plus: Insurance & Spare Parts Rate		mainainence cost offset		-	-	-	-	-	-	9,144	12,232	12,264	12,264	12,298	12,264
Total Revenues			\$	-	\$	-	\$	-	\$	123,082	\$ 127,240	\$ 129,139	\$ 130,016	\$ 131,262	\$ 131,777
Insurance & Spare Parts Expense				-	-	-	-	-	-	(9,144)	(12,232)	(12,264)	(12,264)	(12,298)	(12,264)
EBITDA	\$	-	\$	-	\$	-	\$	-	\$	113,938	\$ 115,008	\$ 116,875	\$ 117,752	\$ 118,965	\$ 119,513
Capex			(156,333)	(286,479)	(227,812)	(68,666)				-	-	-	-	-	-
Taxes			-	-	-	-				(24,139)	-	-	-	-	-
Financial Income (expense)			-	(2,069)	-	-				383	314	280	286	318	328
Unlevered Free Cash Flow			(156,333)	(288,547)	(227,812)	(68,666)	90,161	115,323	117,134	118,037	119,282	119,841	120,769	121,750	

Operating Expense Overruns: In a standard investment in a drilling contractor, opex is a variable for the common shareholder. In the Sete structure, the dayrate has been bifurcated and the Class B Shareholder (rig operator) will bear the burden of daily cost inefficiencies. The Service Contract Dayrate essentially creates a cost plus O&M arrangement and mitigates the Class A Shareholder's risk associated with opex.

Charter Currency Election: The charter payments currency mix of USD & BRL can be elected by the Class A Shareholders not to exceed 50% local currency and up to 100% dollars. 80% USD and 20% BRL is the indicated preferred mix of currency given the debt service is weighted toward USD (analysis on page 4). This is a potential tool for EIG to further mitigate currency risk.

Maintenance Capex: The Insurance & Spare Parts Expense provision of the operating contract is a pass-thru mechanism with Petrobras. Limitations on this subsidy is an outstanding diligence item.

Tax Regime: Certain project taxes exist upon delivery of the vessels though depending on the ultimate investment structure it is unclear whether any specific taxes will be imposed related to a Fund XIV/XV foreign investment

Cash Waterfall: Single Asset SPE	Year	1	2	3	4	5	6	7	8	9	10	11	12
Unlevered Free Cash Flow		(156,333)	(288,547)	(227,812)	(68,666)	90,161	115,323	117,134	118,037	119,282	119,841	120,769	121,750
Funds Disbursement:													
Senior Fundings		117,250	399,705	182,249	54,933	19,873	-	-	-	-	-	-	-
Sub Debt Fundings		-	25,713	12,985	3,914	-	-	-	-	-	-	-	-
Class A Equity Fundings (65%)		55,730	19,101	27,090	6,346	-	-	-	-	-	-	-	-
Class B Equity Fundings (15%)		3,353	6,323	4,887	1,473	-	-	-	-	-	-	-	-
Total Funds Disbursement		156,333	450,840	227,812	68,666	19,873	-	-	-	-	-	-	-
Cash Available for Debt Service		-	162,293	-	-	110,034	115,323	117,134	118,037	119,282	119,841	120,769	121,750
Debt Service:													
Senior Principal		-	(162,293)	-	-	(18,748)	(38,749)	(41,495)	(42,405)	(43,985)	(47,489)	(51,042)	(52,767)
Senior Interest		-	-	-	-	(17,704)	(38,612)	(41,005)	(39,475)	(37,356)	(34,011)	(30,405)	(26,575)
Total Senior Debt Service		-	(162,293)	-	-	(36,452)	(77,361)	(82,500)	(81,880)	(81,340)	(81,500)	(81,447)	(79,342)
Sub Debt Principal		-	-	-	-	-	-	(816)	(1,192)	(1,322)	(1,467)	(1,627)	(1,804)
Sub Debt Interest		-	-	-	-	(2,895)	(5,790)	(5,768)	(5,658)	(5,528)	(5,383)	(5,223)	(5,046)
Total Subordinated Debt Service		-	-	-	-	(2,895)	(5,790)	(5,585)	(6,850)	(6,850)	(6,850)	(6,850)	(6,850)
DSR Funding Cash Adjustment		-	-	-	-	(18,722)	(1,222)	891	989	764	818	1,185	869
Total Debt Service		-	(162,293)	-	-	(58,069)	(84,372)	(88,194)	(87,741)	(87,426)	(87,532)	(87,112)	(85,323)
Cash Available to Shareholders		-	-	-	-	51,965	30,951	28,941	30,296	31,856	32,310	33,657	36,427
Class A Dividends (65%)		-	-	-	-	(40,944)	(26,534)	(24,600)	(25,752)	(27,077)	(27,463)	(28,608)	(30,963)
Class B Dividends (15%)		-	-	-	-	(7,225)	(5,212)	(4,341)	(4,544)	(4,778)	(4,846)	(5,048)	(5,464)
Total Equity Distributions		-	-	-	-	(48,170)	(34,748)	(28,941)	(30,296)	(31,856)	(32,310)	(33,657)	(36,427)
Remaining Cash Balance		-	-	-	-	3,795	(0)	(0)	(0)	(0)	(0)	-	-

Fund XIV/XV Cash Flow & Credit Metrics		Year	1	2	3	4	5	6	7	8	9	10	11	12
	% Total	Investment												
Class A Shares: Single Asset CF	100%	\$90,868	\$ (35,730)	\$ (19,101)	\$ (27,690)	\$ (8,346)	\$ 40,944	\$ 29,534	\$ 24,600	\$ 25,752	\$ 27,077	\$ 27,463	\$ 28,608	\$ 30,963
Fund XIV/XV Share	24.6%	\$22,323	\$ (8,778)	\$ (4,692)	\$ (6,803)	\$ (2,050)	\$ 10,059	\$ 7,256	\$ 6,043	\$ 6,326	\$ 6,652	\$ 6,747	\$ 7,028	\$ 7,807
7 Rig Program Development Schedule			Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
SPE 1			17%	34%	36%	5%	7%							
SPE 2			14%	28%	41%	10%	0%	7%						
SPE 3			14%	22%	31%	24%	0%	10%						
SPE 4			14%	8%	19%	48%	8%	0%	4%					
SPE 5			14%	7%	4%	25%	45%	1%	0%	4%				
SPE 6			14%	6%	1%	1%	46%	30%	0%	2%				
SPE 7			14%	6%	1%	0%	3%	31%	32%	8%	5%			
	Commitment	Net Drawdown												
Class A Shares: Full Project Developrr	\$651,284	\$495,713	\$ (184,698)	\$ (24,979)	\$ (116,814)	\$ (104,304)	\$ (70,088)	\$ (14,830)	\$ 52,654	\$ 121,455	\$ 131,545	\$ 164,450	\$ 145,525	\$ 153,537
Fund XIV/XV Share	\$160,000	\$121,781	\$ (40,461)	\$ (6,137)	\$ (28,697)	\$ (25,624)	\$ (17,218)	\$ (3,643)	\$ 12,935	\$ 29,838	\$ 32,316	\$ 40,400	\$ 35,751	\$ 37,719
IRR	21.0%		-	-	-	-	-	-	0.0%	-20.4%	-8.7%	-0.9%	3.4%	6.4%
ROI (end of original contracts)	6.0x		-	-	-	-	-	-	0.1x	0.4x	0.6x	0.9x	1.2x	1.6x
	Max/Min	Year												
Total Debt Balance	\$ 5,169,393	Dec-18	\$ 540,465	\$ 1,351,037	\$ 2,255,512	\$ 3,116,090	\$ 3,995,793	\$ 4,709,289	\$ 5,066,869	\$ 5,169,393	\$ 5,047,780	\$ 4,732,610	\$ 4,395,256	\$ 4,036,589
DSCR	1.7x	Dec-20	-	-	-	-	-	4.7x	3.4x	2.4x	1.9x	1.8x	1.7x	1.7x
Estimated Currency Flows Assuming 80/20 Currency Election:														
USD Cash Available for Debt Service		\$ -	\$ 841,045	\$ -	\$ -	\$ -	\$ 65,673	\$ 158,124	\$ 342,393	\$ 443,636	\$ 636,515	\$ 675,498	\$ 680,681	\$ 685,916
USD Debt Service			-	(841,045)	-	-	(18,885)	(102,914)	(249,376)	(399,983)	(561,522)	(691,465)	(689,523)	(684,989)
Remaining USD Available to Shareholders		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,788	\$ 55,210	\$ 93,017	\$ 43,653	\$ 74,993	\$ (15,967)	\$ (8,842)	\$ 928
USD DSCR		-	1.0x	-	-	-	3.5x	1.5x	1.4x	1.1x	1.1x	1.0x	1.0x	1.0x
BRL Available to Shareholders		R\$ -	R\$ 1.67	R\$ 1.85	R\$ 1.90	R\$ 2.00	R\$ 33,857	R\$ 83,015	R\$ 183,769	R\$ 243,500	R\$ 357,395	R\$ 395,467	R\$ 404,519	R\$ 411,881
Projected BRL/USD FX							2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40
USD Equivlant BRL Available to Shareholders		-	-	-	-	-	16,418	39,531	85,598	110,909	159,129	172,068	171,939	171,479
Average														
Estimated USD Proportion Dividend Stream	46%	-	-	-	-	-	74%	58%	52%	28%	32%	-10%	-5%	1%
Estimated BRL Proportion Dividend Stream	54%	-	-	-	-	-	26%	42%	48%	72%	68%	110%	105%	99%

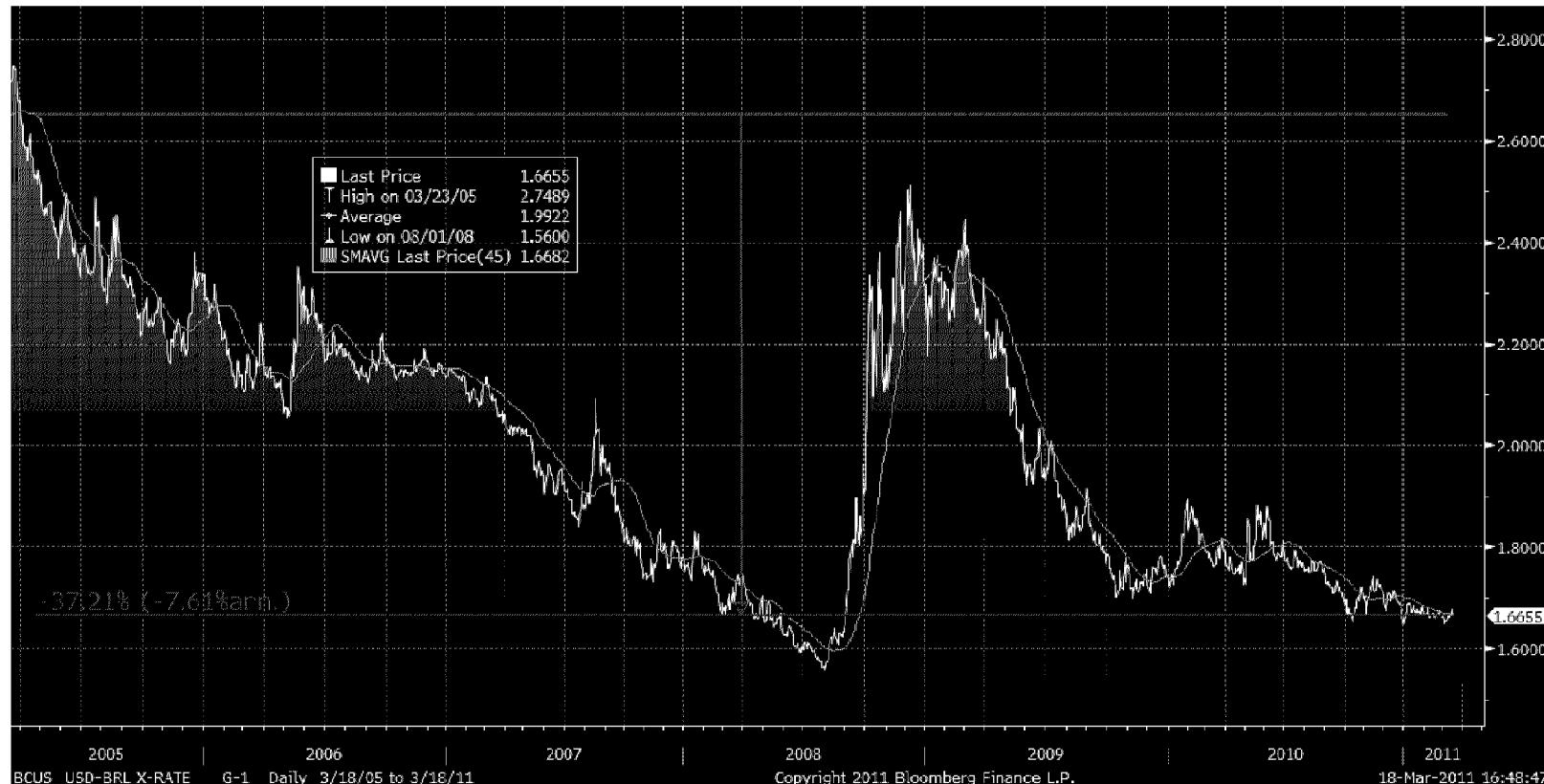
FX: At the project level, long term FX risk is mitigated by inflation adjustments to the dayrate. BRL elected charter payments adjust 100% with IPCA Brazilian Inflation. Shorter term inflation is limited to intra-quarter dividend flows (monthly payments held in local currency until a quarterly dividend payment are subject to short term FX movement). The outcome is relatively minimal overall direct currency exposure even before attempts to hedge (or simply request a higher proportion of USD charter payments).

The following pages explore the USD/BRL volatility, history and indicative markets.

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BRL/USD Historical Trading



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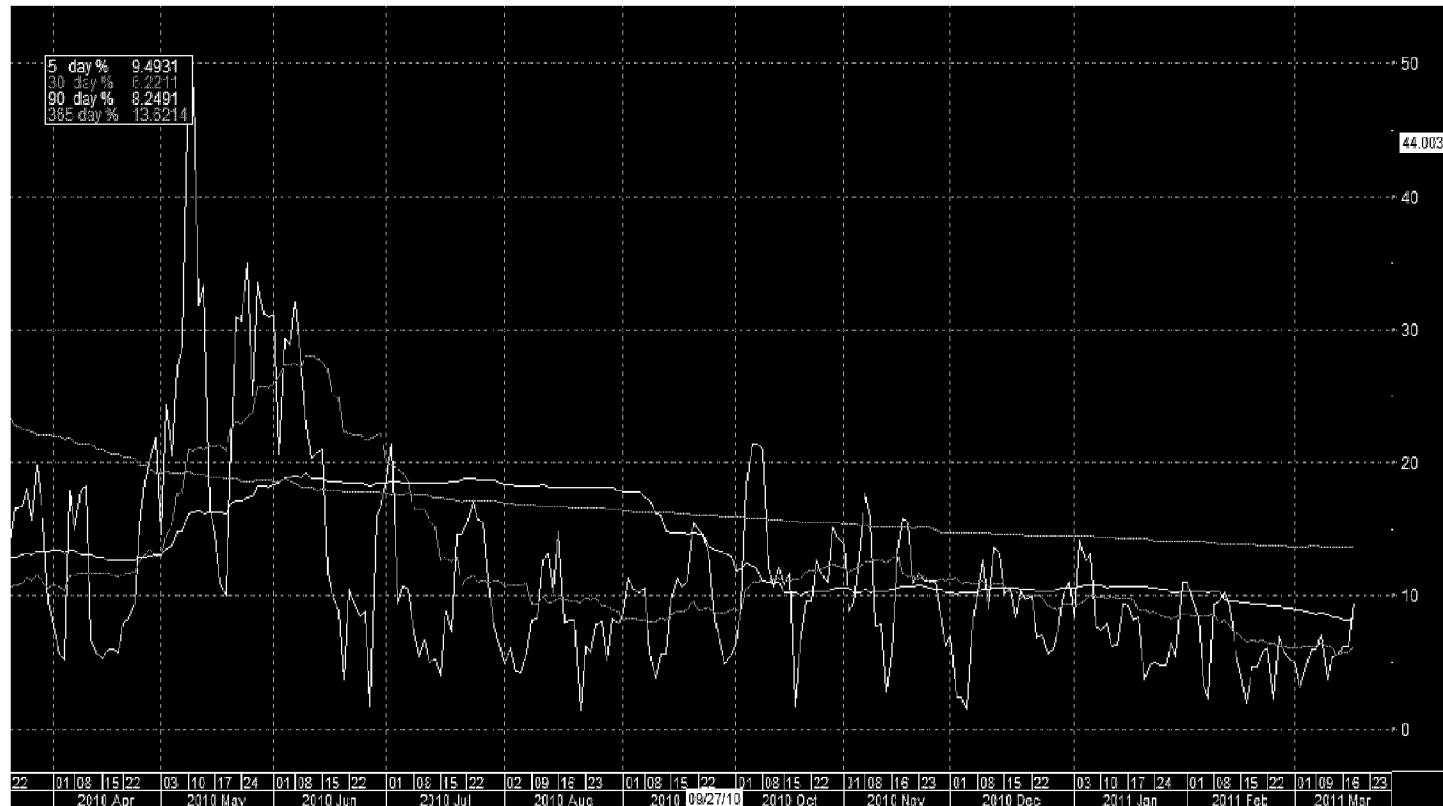
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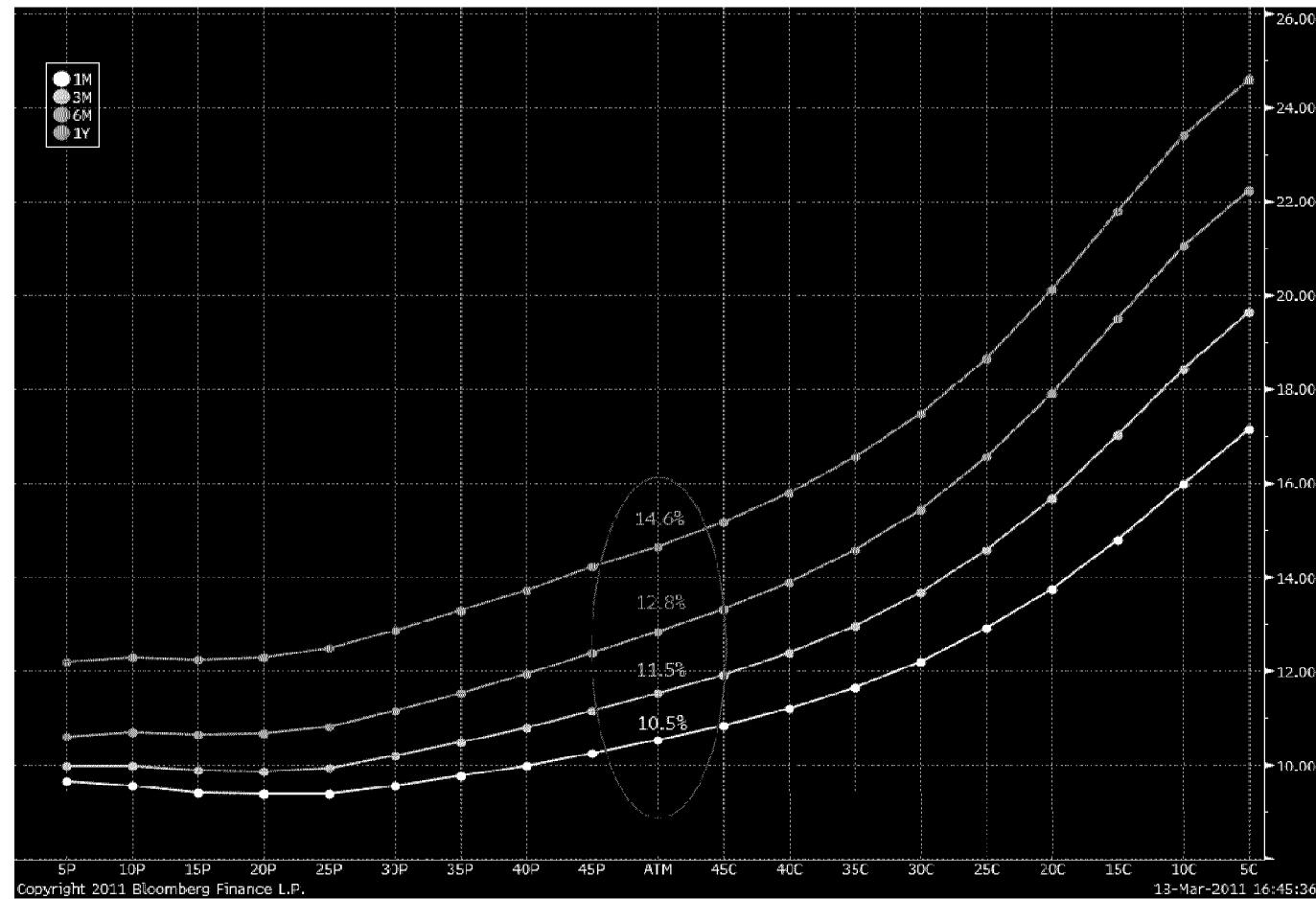
BRL/USD Historical Volatility



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BRL/USD Indicative Market Volatility



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